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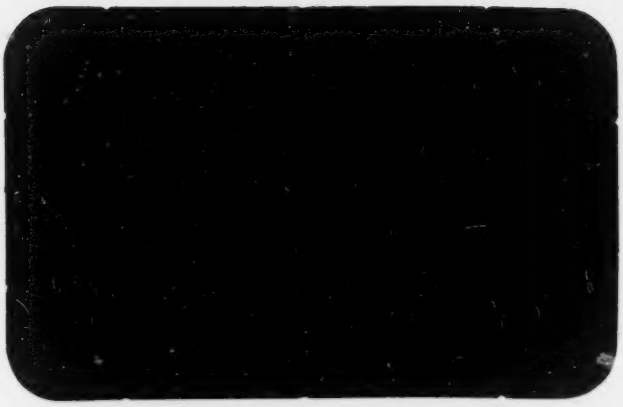

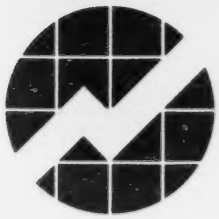

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KEDI ECONOMIC SURVEY

December 1, 1986

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SOURCES:

U.S.Department of Commerce second estimates of 1986:3 National Income and Product data, November 20, 1986.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, November, 1986.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

Slow moderate growth near 3% in 1987. Consumer spending still strong though not as strong as in 1986.

Prices

Low inflation will continue throughout 1987 with consumer inflation at 2.5% and business inflation at 4.2%.

Employment & Labor

Do not look for any substantial decline in the unemployment rate or the number of unemployed.

Housing

Housing starts will be lower in 1987 than in 1986, but not enough to be a factor that may ignite recessionary trends.

Automobiles

Compared to 1986, 1987 will see less domestic production of cars, lower sales, and inventories of new cars will be uncomfortably high.

Budgets

The targets of the Gramm-Rudman federal budget deficit reduction will be met in 1987 on the expenditures side with receipts weaker.

Income

Moderate, regular gains throughout the year in line with expected growth of the economy and employment.

Money & Credit

The Federal Reserve might tighten up on torrid growth of money supply but not enough to induce upward pressure on short term interest rates.

Interest Rates, Yields & Securities Prices

KEDI maintains its assumption that interest rates will remain at low levels throughout 1987.

O.O2 ASSUMPTIONS

		Last Update
1.	In 1986, the weighted price of oil will stabilize; in 1987 it will increase slightly and continue at that level in the 1988-1990 period.	April 1986
2.	A longer-lasting relaxation in monetary and credit policies that started in the second quarter of 1986, will continue into 1987.	October 1986
3.	In 1987 and 1988 good crops in all main producing countries are anticipated.	September 1986
4.	Foreign trade with China will expand in 1987 and following years.	May 1986
5.	Average rates of growth in 1984-1990 in major industrial countries are anticipated: West Germany 3.1%; Italy 2.4%; Great Britain 2.5%; France 2.6%; Japan 2.9%.	Jan 1985
6.	No drastic changes in international relationships are anticipated.	Permanent Assumption

O.O3 FORECAST HIGHLIGHTS

* Table O.OO on page 3 shows forecast data of selected indicators of the December 1986 KEDI forecast.
* In 1986 and 1987 moderate growth is expected.
* An upward trend in 1987 is anticipated. It will continue throughout 1988 - 1990.
* Forecast data for 1987-1990 do not point to recession or major downturn.
* Financial outlook is optimistic.
* Federal budget deficits will keep declining in 1986 and the following fiscal years.
* This year's export-import gap will start closing to a more acceptable level.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1986, 1987 and 1988 are on pages indicated below.

Indicator	Unit	1985	1989	1990	1991
Gross national	bil. 82$	3575.2	4023.4	4107.9	4206.5
product, p. 5	% change	3.0	3.1	2.1	2.4
Index of indust.	1977=100	125.0	139.0	143.3	147.9
prod., p. 5	% change	1.0	3.6	3.1	3.2
Capacity	%	79.7	81.0	80.2	79.4
utiliz., p. 5	% change	-.9	.1	-1.0	-.9
Unemployment	%	7.0	6.6	6.5	6.6
rate, p. 5	% change	-2.5	-3.0	1.0	.8
Private housing	mil.units	1.8	1.9	1.9	1.9
starts, p. 5	% change	4.3	5.2	-2.5	3.0
Car sales,	mil.units	11.2	11.3	11.2	11.6
p. 5	% change	1.4	3.1	-.8	4.0
Implicit GNP	1982=100	112.3	126.8	131.3	136.7
price def., p. 9	% change	2.0	3.2	3.6	4.1
Consumer Price	1967=100	328.5	358.8	372.1	386.2
Index, p. 9	% change	2.0	3.5	3.7	3.8
Prod.Price Index	1967=100	289.9	328.9	343.7	355.0
(fin.goods),p.9	% change	-1.4	4.1	4.5	3.3
Federal Deficit	bil. $	-200.1	-151.0	-129.9	-110.3
p. 19	% change	15.1	-10.0	-14.0	-15.1
Personal Income	bil. $	3314.5	4291.3	4600.2	4917.7
p. 21	% change	5.1	7.1	7.2	6.9
Prime Rate	%	8.3	8.0	8.7	9.4
p. 25	% change	-11.6	6.9	9.0	8.4
Mortgage Rate	%	9.8	9.0	8.8	8.9
p. 25	% change	-11.6	3.6	-3.0	2.0
Currency+demand	bil. $	670.0	848.6	905.4	958.0
deposits, p. 23	% change	12.9	6.6	6.7	5.8
Commercial+ind.	bil. $	519.5	579.8	596.6	609.1
loans, p. 23	% change	5.3	3.2	2.9	2.1
Raw steel	mil.sh.tons	88.1	89.3	90.0	90.2
production	% change	-4.8	-.1	.8	.2
Electric power	mil.kw-hr	2576	3210	3351.2	3522.2
production	% change	6.5	4.1	4.4	5.1
Bituminous coal	mil.sh.tons	873	930	973.1	984.0
production	% change	-.1	1.4	1.3	1.5
Crude oil	avg. daily bbl.	3279	2316	2360.0	2395.4
output	% change	.9	1.8	1.9	1.5
Retail sales	bil. $	1377.7	1755.1	1851.7	1975.7
p. 7	% change	6.2	5.8	5.5	6.7

Numbers in "% change" rows show percent changes over the previous year.

1.10 REAL GROWTH

See Table 1.11
Page 5

1986
FORECAST
DATA

Percent Change
from
November 1986
Forecast

+	.99%	Private housing starts
+	.62%	Unemp-ploy-ment
+	.14%	GNP
+	.04%	Index Indus. Prod.
-	.47%	Autos
-	.06%	Capacity Util.

SLOW MODERATE GROWTH NEAR 3% IN 1987 INFLUENCED BY:

CONSUMER SPENDING still strong though not as strong as in 1986. Gradual decline in FOREIGN TRADE DEFICIT. MANUFACTURING resuscitating from 1986 lows. Strong increments in DEFENSE industries.

The impact of HOUSING and AUTOS on 1987 economic growth will be much smaller than in 1986. Both segments will be weaker in 1987, but not weak enough to push the economy downward.

PRIMARY METALS and FABRICATED METAL PRODUCTS, ELECTRICAL and NONELECTRICAL MACHINERY, and AEROSPACE will perform better in 1987 than in 1986 in the DURABLES MANUFACTURING segments. In the NONDURABLES look for CHEMICALS, FOODS, PAPER and PAPER PRODUCTS, PRINTING and PUBLISHING and PETROLEUM PRODUCTS to improve their performance in 1987. Expect a continuous fast growth of the SERVICE segment and moderate performance of the CONSTRUCTION industry--less housing and nonresidential construction--but more road construction and repairs as well as more public projects.

Add to that a slowly declining unemployment rate, declining federal deficit, low inflation with interest rates at low levels, and a stable performance of the stock market.

All of this adds up to MODERATE, SLOW GROWTH in 1987.

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	GNP	Index of ind. prod**	Unem-ploy ment	Capacity util'n rate**	Private housing starts	Auto sales
Unit	$82 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1985*	3575.2	123.8	7.21	80.4	1.742	11.1
1986:1*	3655.9	125.0	7.06	80.0	1.990	10.7
2*	3683.3	124.4	7.16	79.6	1.905	10.7
3	3687.3	125.1	6.90	79.7	1.763	13.2
4	3696.8	125.7	7.01	79.4	1.607	10.4
YEAR	3680.8	125.0	7.03	79.7	1.816	11.2
% change from '85	3.0	1.0	-2.5	-.9	4.3	1.4
1987:1	3726.9	126.4	7.02	79.7	1.593	10.2
2	3756.2	127.3	6.94	79.8	1.735	10.5
3	3789.1	128.7	6.86	79.4	1.831	11.0
4	3828.3	132.6	6.87	80.1	1.708	10.5
YEAR	3775.1	128.8	6.92	79.8	1.717	10.6
% change from '86	2.6	3.0	-1.6	.1	-5.5	-6.2
1988:1	3837.5	132.7	6.96	80.2	1.656	10.3
2	3860.3	133.5	6.87	80.4	1.810	10.8
3	3890.3	134.1	6.73	81.2	1.924	11.4
4	4021.7	136.3	6.62	81.8	1.856	11.2
YEAR	3902.4	134.2	6.79	80.9	1.812	10.9
% change from '87	3.4	4.2	-1.8	1.4	5.5	3.6

*Historical data.
**New, revised series

1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1986 FORECAST DATA

Percent Change from November 1986 Forecast	
+ 8.29%	Pers. Con. Exp. Services
+ 1.77%	Retail Sales Durables
+ .97%	Retail Sales Total
+ .49%	Retail Sales Nondurable
+ .21%	Pers. Cons. Exp. Nondurable
- .05%	Pers. Con. Exp. Durable

OPTIMISTIC OUTLOOK FOR 1987 CONSUMER SPENDING AND RETAIL SALES, BUT SLOWER THAN 1986 IN BOTH AREAS.

Main increments in 1987 retail sales are expected in home-building materials (Maintenance and improvement), household furnishings and fixtures, and apparel and clothing stores and gasoline stations

Regular increments in sales of food stores--approximately the same percent increase in 1987 as in 1986.

Automobile sales will be weaker in 1987 than in 1986.

Expect STRONG increases in the service sector, mainly: fast food, repairs, entertainment, transportation and travel.

While retail sales fell a record" 5% in October, retail sales were up by 5.3% in September with a net increase of .3% Excluding September incentives by auto makers, retail sales rose in October by .2-.3%, a good gain, after a September rise of .1%

—

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*--Personal Cons. Expend.- Durables	Nondur-ables	Services	**------Retail Sales------- Total Durables	Nondur-ables
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.						
1985*	359.2	905.1	1336.1	1377.7	511.6	866.2
1986:1*	360.8	929.7	1415.5	1410.8	526.4	884.4
2*	373.9	928.4	1428.1	1445.6	532.1	913.5
3	401.7	932.2	1462.0	1469.8	559.4	910.4
4	392.0	944.0	1474.2	1481.4	554.8	926.6
YEAR	382.1	933.6	1444.9	1451.9	543.2	908.7
% change from '85	6.4	3.1	8.1	5.4	6.2	4.9
1987:1	394.7	956.7	1514.1	1498.4	560.4	938.0
2	405.0	967.4	1531.1	1528.6	570.5	958.1
3	409.3	979.3	1564.2	1473.7	590.6	883.1
4	412.2	990.7	1596.2	1598.0	598.8	999.2
YEAR	405.3	973.5	1551.4	1524.7	580.1	944.6
% change from '86	6.1	4.3	7.4	5.0	6.8	3.9
1988:1	418.5	1020.1	1612.0	1647.7	610.4	1037.3
2	420.1	1031.3	1620.1	1634.3	617.7	1016.6
3	444.0	1048.6	1617.3	1663.5	629.8	1033.7
4	460.1	1060.5	1781.5	1690.2	635.4	1054.8
YEAR	435.7	1040.1	1657.7	1658.9	623.3	1035.6
% change from '87	7.5	6.8	6.9	8.8	7.5	9.6

1.13 REAL GNP

See Table 1.13
Page 9

1986
FORECAST
DATA

Percent Change
from
November 1986
Forecast

+	.53%	Federal Local Purch.
+	.14%	GNP
+	.17%	Net Exports
-	.17%	State Local Purch.
-	.44%	Gross Private Dom. Inv.
-	2.70%	Pers. Cons. Expend.

GOOD IMPROVEMENT IN REAL GNP DATA FOR 1986:3, SECOND REVISION, NOVEMBER 20, COMPARED TO FIRST ESTIMATE IN OCTOBER.

* 1986:3 Growth at 2.9%, up from 2.4% in first estimate

Main factors contributing to this improved estimate are lower foreign trade gap, higher Federal government, and State and Local government purchases of goods and services, and higher personal consumption expenditures.

In 1987 KEDI expects a slightly lower rate of growth compared to 1986 because of weak autos and housing, a low rate of business capital formation, and small decrements in the foreign trade gap. A more vigorous growth of the economy is expected to occur no earlier than in 1988.

TABLE 1.13
REAL GNP
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*----------Gross National Product----------					*
	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1985*	3575.2	2324.5	647.7	-108.2	313.6	397.6
1986:1*	3655.9	2372.6	684.0	-125.9	320.4	404.8
2*	3683.3	2408.4	664.7	-153.9	328.9	413.3
3	3687.3	2450.4	648.1	-163.6	335.4	420.6
4	3696.8	2442.9	656.1	-160.5	337.2	421.1
YEAR	3680.8	2418.6	663.2	-151.0	330.5	415.0
% change from '85	3.0	4.0	2.4	39.5	5.4	4.4
1987:1	3726.9	2460.9	660.5	-155.1	338.1	422.5
2	3756.2	2465.9	669.4	-148.1	339.6	429.4
3	3789.1	2483.8	672.5	-142.9	340.7	435.0
4	3828.3	2507.3	679.4	-139.7	341.2	440.1
YEAR	3775.1	2405.4	670.5	-146.4	339.9	431.8
% change from '86	2.6	-.5	1.1	-3.0	2.9	4.0
1988:1	3837.5	2430.0	681.2	-138.0	342.6	444.1
2	3860.3	2520.5	683.7	-136.1	344.7	447.5
3	3890.3	2535.4	691.5	-133.5	346.6	450.3
4	4021.7	2659.1	692.6	-131.7	347.3	454.4
YEAR	3902.4	2550.8	687.2	-134.8	350.1	449.1
% change from '87	3.4	6.0	2.5	-7.9	3.0	4.0

*Historical data.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

1986
FORECAST
DATA

Percent Change
from
November 1986
Forecast

+	.74%	Pers. Cons. Expend.
+	.55%	GNP
+	.22%	Consumer Price Index
+	.11%	Federal Govt. Purch.
+	.04%	State Local Purch.
+	.02%	Producer Price Index

LOW INFLATION WILL CONTINUE THROUGHOUT 1987 WITH THE CONSUMER INFLATION AT 2.5%, AS MEASURED BY THE CPI, AND BUSINESS INFLATION AT 4.2% AS MEASURED BY THE PPI FOR FINISHED GOODS.

* The 1987 economy will keep a cool head. Growth is forecast to approximate 1986. No significant changes in capacity utilization are forecast, with consequent idle capacity.

* Unemployment will remain fairly high and supplies of commodities--domestic and imported--will be plentiful.

* Consumer demand will not be as strong as in 1986.

* Impacts of "weaker" dollar on prices will not be significant. KEDI shares the opinion of a growing number of economists that the dollar has depreciated just a bit, but certainly not the 20-30% being reported. Actual depreciation is around 4-5%--too insignificant to have a major impact on domestic price levels.

THIS ADDS UP TO A LOW RATE OF INFLATION FOR 1987.

TABLE 1.21
PRICES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	*---Indexes--* Cons. price index n.s.a.**	Prod. price index n.s.a.**	*-------Price deflators--------* Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1967= 100	1967= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1985*	322.1	293.9	112.3	112.7	111.0	116.3
1986:1*	327.3	292.3	113.7	103.1	111.0	118.7
2*	326.5	288.3	114.0	103.5	111.8	119.3
3	328.9	287.9	115.0	114.1	111.1	120.2
4	331.4	291.1	115.7	115.0	112.2	121.3
YEAR	328.5	289.9	114.6	114.4	111.5	119.9
% change from '85	2.0	-1.4	2.0	1.5	.5	3.1
1987:1	333.2	294.9	116.7	116.4	113.2	122.3
2	335.9	300.2	117.8	133.8	114.5	124.2
3	337.9	305.3	118.9	118.9	115.9	125.7
4	340.4	308.2	119.6	119.6	117.3	127.6
YEAR	336.8	302.1	118.2	122.2	115.2	125.0
% change from '86	2.5	4.2	3.2	6.8	3.3	4.2
1988:1	343.6	311.4	121.5	125.5	118.2	128.9
2	345.7	313.8	122.2	121.9	119.6	130.0
3	347.4	317.9	123.0	122.7	120.8	132.4
4	349.9	320.7	124.6	124.2	122.4	134.2
YEAR	346.6	315.9	122.8	123.6	120.2	131.4
% change from '87	2.9	4.6	3.9	1.1	4.4	5.1

*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

1986 FORECAST DATA

Percent Change from November 1986 Forecast

+	4.42%	Pers. Cons. Expend.
+	.69%	GNP
+	.63%	Federal Govt. Purch.
-	.06%	Gross Private Dom. Inv.
-	.17%	State Local Purch.
-	.29%	Net Exports

MORE FAVORABLE FIGURES RELEASED BY COMMERCE DEPARTMENT IN SECOND ESTIMATES FOR 1986:3 WHEN COMPARED TO FIRST ESTIMATE.

* Lower foreign trade gap.
* No change in rate of inflation as measured by the GNP price deflators.
* No changes in price deflators of components of GNP.

OUTLOOK FOR 1987.

* Nominal GNP shows a 5.8% increase over 1986 compared to expected 5.5% increase in 1986 over 1985.
* The Gross Private Domestic Investment Expenditures will remain the weakest spot in the structure of GNP. Forecast data show a 2.4% increment in 1987 over 1986, as compared to the expected 4.2% in 1986 over 1985. This is due to the disappointingly low business expenditures on plants, new housing and a low inventories build-up.

TABLE 1.22
NOMINAL GNP
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*----------Gross National Product----------					*
	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1985*	3998.1	2619.1	661.1	-78.9	354.1	461.3
1986:1*	4156.8	2706.0	708.3	-93.7	355.6	480.5
2*	4174.0	2730.3	687.3	-104.5	367.7	493.1
3	4241.1	2795.9	674.8	-108.2	372.7	505.7
4	4277.2	2810.2	685.0	-107.1	378.3	510.8
YEAR	4218.2	2766.8	688.8	-103.4	368.6	497.5
% change from '85	5.5	5.6	4.2	31.0	4.1	7.9
1987:1	4349.3	2865.5	691.1	-106.8	382.7	516.7
2	4424.8	3299.9	704.1	-105.0	388.8	533.3
3	4505.2	2952.8	712.0	-101.2	394.9	546.8
4	4578.6	2999.1	715.2	-97.4	400.2	561.6
YEAR	4464.5	3029.3	705.6	-102.6	391.7	539.6
% change from '86	5.8	9.5	2.4	-.7	6.3	8.5
1988:1	4662.6	3050.6	725.0	-90.4	405.0	572.4
2	4717.3	3071.5	732.1	-80.3	412.3	581.8
3	4785.1	3109.9	735.4	-75.1	418.7	596.2
4	5011.0	3302.1	739.2	-65.2	425.1	609.8
YEAR	4793.2	3151.8	732.9	-77.8	415.3	590.0
% change from '87	7.4	4.0	3.9	-24.2	6.0	9.3

*Historical data.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1986 FORECAST DATA

Percent Change from November 1986 Forecast

+	.62%	Unemployment rate
	0.00%	Agriculture
-	.01%	Population
-	.21%	Civilian Labor Force
-	.29%	Non-Agri.
-	.29%	Total Employed

DO NOT LOOK FOR ANY SUBSTANTIAL DECLINE IN THE UNEMPLOYMENT RATE OR THE NUMBER OF UNEMPLOYED.

There will be a continuous strong growth of employment in the SERVICE SECTOR, mainly fast food, hotels, motels, restaurants, repairs, medical, hospital, educational, and legal services and agriculture. Transportation will show small but persistent declines. Construction leveling off with mining at low levels except coal mining. Manufacturing of durables will remain at persistent low level with small increments for nondurables.

TABLE 1.30
EMPLOYMENT & LABOR
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Population	Civil. labor force	*-------Employment-------* Total	Agri-cult.	Non-agric.	Unem-ployment rate
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1985*	241.7	115.4	107.2	3.2	103.9	7.21
1986:1*	244.5	117.0	108.7	3.2	105.5	7.06
2*	245.9	117.7	109.3	3.2	106.1	7.16
3	247.3	118.2	110.2	3.2	104.1	6.90
4	249.8	118.7	110.4	3.1	107.3	7.01
YEAR	246.9	117.9	109.7	3.2	106.5	7.03
% change from '85	2.1	2.2	2.0	-.8	2.5	-2.46
1987:1	250.7	119.1	110.7	3.1	107.6	7.02
2	252.3	120.2	111.9	3.1	108.8	6.94
3	254.0	121.8	113.4	3.1	110.3	6.86
4	256.1	122.3	113.9	3.1	110.8	6.87
YEAR	253.3	120.8	112.5	3.1	109.4	6.92
% change from '86	2.6	2.5	2.5	-2.4	2.7	-1.56
1988:1	257.5	123.0	114.4	3.1	111.3	6.96
2	259.6	123.9	115.4	3.0	112.4	6.87
3	261.4	125.2	116.8	3.0	113.8	6.73
4	263.5	126.5	118.1	3.0	115.1	6.62
YEAR	260.5	124.7	116.2	3.1	113.1	6.79
% change from '87	2.9	3.1	3.2	0.0	3.4	-1.84

*Historical data.

1.41 HOUSING

See Table 1.41 - Page 17

1986
FORECAST
DATA

Percent Change
from
November 1986
Forecast

+	.44%	Single Family Existing
+	.04%	Single Family New
-	.15%	Single Family Existing
-	2.23%	Multiple Housing Starts
-	2.35%	Multiple Family Housing Starts
-	2.87%	Permits Issued

HOUSING STARTS WILL BE LOWER IN 1987 THAN IN 1986, BUT NOT LOW ENOUGH TO BE REGARDED AS A FACTOR THAT MAY IGNITE RECESSIONARY TRENDS.

Factor contributing to weaker performance is that housing is in a contractionary phase--winding down. Expansion in housing is expected to start no earlier than 1988.

The expected 1987 downward trend will be accelerated somewhat by the impact of new tax legislation keeping apartment housing at low levels.

Expect LESS new housing in 1987, a bit less of single-family and a lot less of multi-family housing.

Expect SIGNIFICANT increases in prices of new housing and EXISTING housing.

TABLE 1.41
HOUSING
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Single family housing starts	Multi-family housing starts	Mobile home shipments	Permits authorized	1-Fam. unit price new**	1-Fam. unit price exist**
Unit	mil.	mil.	mil.	mil.	tho. $	tho. $
Year & Qtr.						
1985*	1.072	.669	.283	1.735	101.0	90.3
1986:1*	1.257	.733	.274	1.839	103.4	91.8
2*	1.242	.663	.280	1.805	104.7	94.7
3	1.142	.602	.278	1.678	106.2	96.7
4	1.021	.586	.265	1.564	109.9	97.3
YEAR	1.165	.646	.274	1.722	106.1	95.1
% change from '85	8.7	-3.4	-3.1	-.8	5.0	5.3
1987:1	1.012	.581	.253	1.514	110.6	99.1
2	1.098	.637	.280	1.665	111.8	100.1
3	1.164	.667	.269	1.704	112.3	101.4
4	1.097	.611	.250	1.726	114.7	104.0
YEAR	1.093	.624	.263	1.652	112.3	101.2
% change from '86	-6.2	-3.4	-4.1	-4.0	5.9	6.3
1988:1	1.026	.630	.259	1.620	115.3	105.1
2	1.125	.685	.273	1.731	117.4	106.1
3	1.250	.674	.296	1.848	119.5	107.4
4	1.191	.665	.291	1.817	121.9	108.3
YEAR	1.148	.663	.280	1.754	118.5	106.7
% change from '87	5.1	6.3	6.4	6.2	5.5	5.5

*Historical data.
**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

1986 FORECAST DATA

Percent Change from November 1986 Forecast

+ 1.61%	Imported Car Sales
0.00%	Dealer Inventory
0.00%	Domestic Car Sales
- .47%	Total Car Sales
- .66%	Shipments
- 2.14%	Total Light Truck Sales

JUST LIKE THE HOUSING PICTURES, AUTOS ARE WINDING DOWN. Compared to 1986, 1987 will see less domestic production of cars, lower sales, and inventories of new cars at uncomfortably high levels through the year.

Expect substantial increases in prices of 1987 models.

KEDI anticipates that the 1987 rounds of incentives by automakers will not be as effective as in 1986 because:

* Interest rates on car loans cannot be chopped to rock bottom after the fiasco in September 1986.
* Light-duty truck market will remain strong, but FLAT with no increases in sales for either domestic or imported.
* Heavy trucks will remain stable, similar to light trucks.

TABLE 1.42
AUTOMOBILES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1985*	11.1	8.4	2.8	1.3	8.4	3.7
1986:1*	10.7	7.9	2.8	1.8	7.7	3.4
2*	10.7	7.7	3.0	1.7	7.9	3.5
3	13.2	9.7	3.5	1.1	8.2	3.6
4	10.4	7.2	3.0	1.4	7.5	3.3
YEAR	11.2	8.1	3.1	1.4	7.8	3.5
% change from '85	1.4	-3.3	9.8	7.7	-6.8	-6.8
1987:1	10.2	7.3	2.9	1.8	7.4	3.3
2	10.5	7.4	3.1	1.8	7.3	3.5
3	11.0	7.7	3.3	1.7	7.8	3.5
4	10.5	7.2	3.3	1.8	7.7	3.4
YEAR	10.6	7.4	3.1	1.8	7.5	3.4
% change from '86	-6.2	-8.7	2.4	28.6	-3.5	-.7
1988:1	10.3	7.0	3.3	1.9	7.6	3.3
2	10.8	7.7	3.1	1.8	7.9	3.5
3	11.4	8.0	3.4	1.7	8.1	3.7
4	11.2	7.9	3.3	1.7	8.0	3.8
YEAR	10.9	7.7	3.3	1.7	7.9	3.6
% change from '87	3.6	-.4	4.0	-5.6	4.6	4.4

*Historical data.
**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

1986
FORECAST
DATA

Percent Change from November 1986 Forecast	
+ 1.88%	State Surplus/ Deficit
+ .24%	State Local Corp. Tax Accrued
+ .20%	State Income Tax
- .70%	Surplus/ Deficit
- .98%	Federal Income Tax
- 1.04%	Corp. Profit Tax Accrued

THE TARGETS OF THE GRAMM-RUDMAN FEDERAL BUDGET DEFICIT REDUCTION WILL BE MET IN 1987 ON THE EXPENDITURES SIDE. HOWEVER, THE RECEIPT SIDE IS PREDICTED WEAKER THAN THE ADMINISTRATION ANTICIPATES.

It does not seem likely that the target for the current fiscal year--a deficit of $144 billion with a $10 billion leeway will be achieved. KEDIs forecast for State and Local budgets is optimistic with a significant increase in the cumulative surplus.

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*-----FEDERAL----------*			*---STATE AND LOCAL----*		
	Income taxes	Corp. profits tax accru.	Surplus /deficit	Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1985*	350.8	67.7	-200.1	142.0	18.1	59.2
1986:1*	350.3	71.2	-201.6	147.2	17.5	70.0
2*	353.1	75.2	-238.1	151.7	18.1	59.0
3	365.8	77.2	-205.8	153.1	19.5	64.3
4	386.1	79.0	-204.6	155.1	20.4	66.2
YEAR	363.8	75.7	-212.5	151.8	18.9	64.9
% change from '85	3.7	11.7	6.2	6.9	4.3	9.6
1987:1	393.0	84.2	-190.1	158.6	20.1	68.3
2	397.3	92.0	-187.2	161.9	21.0	69.1
3	403.0	96.2	-183.1	165.8	21.5	70.6
4	407.3	98.1	-178.0	167.4	21.6	73.6
YEAR	400.1	92.6	-184.6	163.4	21.1	70.4
% change from '86	10.0	22.4	-13.1	7.7	11.5	8.5
1988:1	411.5	100.3	-176.0	168.6	22.0	75.4
2	417.2	103.0	-170.1	170.3	23.1	77.6
3	423.0	106.6	-165.0	172.2	23.4	78.5
4	428.7	105.1	-160.1	174.7	24.7	79.4
YEAR	420.1	103.8	-167.8	171.4	23.3	77.7
% change from '87	5.0	12.0	-9.1	4.9	10.7	10.4

*Historical data.

1.60 INCOME

See Table 1.60 - page 23

1986
FORECAST
DATA

Percent Change
from
November 1986
Forecast

+ 1.76%	Corp. After Tax Profit
+ .81%	Personal Disp. Income
+ .59%	Personal Income
+ .10%	Comp. of Empl.
+ .04%	Average Weekly Earnings
- .88%	Personal Savings

FORECAST DATA FOR PERSONAL AND PERSONAL DISPOSABLE 1987 SHOW MODERATE, REGULAR GAINS THROUGHOUT THE YEAR IN LINE WITH OVERALL EXPECTED GROWTH OF THE ECONOMY AND EMPLOYMENT.

	Pers. Income	Pers. Disp. Income	GNP in current $
	(% changes over previous year)		
1986	5.1	5.0	5.5
1987	7.8	7.5	5.8

Personal Saving Rate will improve slightly compared to 1986, but will still remain at a low level.

Corporate profits will show significant improvement, in general, when compared to 1986. After tax profits for the economy are forecast to go up by 12.7%. Detailed forecast data show that the expected impact of new tax laws on profits of corporations will not be significant, and certainly not as devastating as some glum forecasters attempt to depict.

TABLE 1.60
INCOME
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1985*	3314.5	2828.0	2368.2	131.4	143.3	382.0
1986:1*	3444.3	2946.8	2461.5	135.2	145.6	391.2
2*	3489.3	2984.5	2486.9	138.0	153.1	393.9
3	3501.6	2982.7	2507.3	144.0	90.4	393.7
4	3500.7	2959.5	2521.7	147.5	149.3	397.2
YEAR	3484.0	2968.4	2494.3	141.2	134.6	394.0
% change from '85	5.1	5.0	5.3	7.4	-6.1	3.1
1987:1	3669.1	3117.5	2569.3	152.6	153.8	400.1
2	3722.6	3163.4	2604.2	158.7	160.1	407.0
3	3785.3	3216.5	2659.4	161.4	161.6	410.5
4	3840.7	3266.0	2710.7	163.5	163.2	415.8
YEAR	3754.4	3190.9	2635.9	159.1	159.7	408.4
% change from '86	7.8	7.5	5.7	12.7	18.6	3.6
1988:1	3904.1	3324.0	2769.2	160.1	168.0	417.4
2	3938.0	3350.5	2807.6	164.5	172.4	420.5
3	3989.5	3394.3	2869.8	167.5	176.6	425.6
4	4195.6	3592.2	2919.4	171.4	180.9	428.0
YEAR	4006.8	3415.2	2841.5	165.9	174.5	422.9
% change from '87	6.7	7.0	7.8	4.3	9.3	3.6

*Historical data.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1986 FORECAST DATA

Percent Change from November 1986 Forecast

+ 4.19%	Currency & Demand Deposits
+ .15%	Comm. & Indust. Loans at Banks
+ .13%	Consumerr Install. Credit
- .35%	Time Deposits
- 2.80%	Mortg. at S & L Assns.
- 4.23%	Large Denom. Time Deposits

EXPECT THE FEDERAL RESERVE TO TIGHTEN UP ON THE TORRID GROWTH OF MONEY SUPPLY, BUT NOT ENOUGH TO INDUCE UPWARD PRESSURE ON SHORT TERM INTEREST RATES.

KEDI's 1987 outlook for money and credit calls for a slowdown in the of monetary and credit aggregates when compared to 1986.

KEDI anticipates that the Federal Reserve will be relying more on data on money supply M2 and M3 because these are more closely tied to economic developments than M1.

Forecast data for M2 and M3 show regular and not excessive upward movements in real GNP and 5-6% in nominal GNP.

Expect slowing down in CONSUMER CREDIT, mainly car loans, MORTGAGE CREDIT, and modest increases in CREDIT CARD debt.

COMMERCIAL AND INDUSTRIAL loans show a slow upward trend.

KEDI does not anticipate enough UP or DOWN in the economy to pressure the Federal Reserve to tighten or loosen monetary and credit policies in 1987.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDICATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2,s.a.	Cons. instal. credit s.a.	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at S & L Assns. n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1985*	593.6	2484.0	535.1	493.9	436.5	585.5
1986:1*	629.8	2581.3	550.9	502.1	450.4	577.1
2*	657.8	2645.7	567.7	508.0	449.7	567.4
3	685.6	2720.9	588.9	512.0	447.1	578.2
4	706.7	2772.3	595.9	519.5	445.3	589.2
YEAR	670.0	2680.1	595.9	519.5	445.3	589.2
% change from '85	12.9	7.9	11.4	5.3	2.0	.6
1987:1	721.5	2850.1	604.8	527.1	443.4	597.4
2	738.4	2908.2	611.3	534.3	444.2	503.5
3	751.5	2975.3	624.6	539.5	447.8	613.4
4	762.5	3030.2	633.2	548.1	450.3	620.7
YEAR	743.5	2940.9	633.2	548.1	450.3	620.7
% change from '86	11.0	9.7	6.3	5.5	1.1	5.3
1988:1	776.4	3094.5	640.6	550.2	452.2	628.2
2	789.3	3152.1	650.4	553.5	454.5	635.6
3	799.7	3231.6	664.2	556.1	458.3	640.2
4	818.8	3296.2	676.7	561.8	463.5	648.7
YEAR	796.0	3193.6	676.7	561.8	463.5	648.7
% change from '87	7.1	8.6	6.9	2.5	2.9	4.5

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1986 FORECAST DATA

Percent Change from November 1986 Forecast

+ 2.54%	20 yr. Govt. Bonds Yield
+ .15%	S & P's 500 Avg.
- .03%	Aaa Corp. Bond Rate
- .27%	Prime Rate
- 1.08%	Conv. Mortg. Rate
- 4.09%	Treas. Bills 3 mo. Yield

KEDI MAINTAINS ITS ASSUMPTION THAT INTEREST RATES WILL REMAIN AT LOW LEVELS THROUGHOUT 1987. Some further declines will take place in the first half of 1987, specifically for consumer installment credit and short-term business loans. Expect more significant declines in long-term rates and yields, mainly long-term government bonds, corporate bonds and mortgages throughout the year.

The stock and bond markets will give a strong performance on both markets. No significant UPS or DOWNS are predicted in 1987. Slow, gradual and steady growth in stock and bond prices are foreseen in 1987.

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield	Prime rate	Conv. mortg rate	Aaa corp. bond rate	20 yr. Govt. bonds yield	S & P's 1941-43 500 Avg
Unit	%	%	%	%	%	%
Year & Qtr.						
1985*	7.48	9.43	11.12	11.32	10.88	186.84
1986:1*	7.01	9.37	10.22	9.74	9.01	221.72
2*	6.14	8.61	9.82	9.00	7.67	242.16
3	5.48	7.85	9.67	8.72	7.02	245.21
4	5.26	7.50	9.60	8.63	6.87	250.47
YEAR	5.97	8.33	9.83	9.02	7.64	239.89
% change from '85	-20.2	-11.6	-11.6	-20.3	-29.8	28.4
1987:1	5.23	7.38	9.53	8.30	6.65	248.95
2	5.15	7.20	9.01	8.19	6.21	251.92
3	5.02	7.22	8.70	8.09	5.92	253.85
4	5.24	7.28	8.53	7.89	5.87	255.72
YEAR	5.16	7.27	8.94	8.12	6.16	252.61
% change from '86	-13.6	-12.8	-9.0	-10.0	-19.4	5.3
1988:1	5.26	7.32	8.62	7.81	5.72	252.32
2	5.31	7.38	8.65	7.92	5.74	256.29
3	5.43	7.56	8.76	8.04	5.84	260.34
4	5.65	7.63	8.89	8.12	5.92	263.55
YEAR	5.41	7.47	8.73	7.97	5.80	258.12
% change from '87	4.9	2.8	-2.4	-1.8	-5.8	2.2

*Historical data.

2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Private Housing Starts has been selected for comparison. The actual figure appears in the Survey of Current Business, August 1986 issue, blue pages (monthly, U. S. Department of Commerce, Washington, D.C.). Forecast data are in Business Forecasts 1985 (Federal Reserve Bank of Richmond, Virginia, February 1985). KEDI's forecast has been taken from the KEDI Economic Survey, Dec. 1, 1984, Vol. 10, No. 2, p. 17. At that time, the Business Forecasts 1985 published KEDI's forecast of domestically produced cars only. The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
Passenger Car Sales (mil. units)
Actual figure: 11.1

Forecaster (and page in source)	Date of Forecast	Forecast	Accuracy %
Georgia State Univ., p. 15	11/84	10.6	- 4.5
First Interstate Bank of Calif., p.16	11/19/84	10.5	- 5.4
Core States Financial Corp.*, p. 18	12/84	10.3	- 7.2
U.S. Chamber of Commerce, p. 20	12/84	11.3	+ 1.8
UCLA Business Forecasting Project, p. 22	12/13/84	11.0	- .9
Evans Economics, p. 26	12/21/84	10.4	- 6.3
Data Resources, p. 27	12/23/84	10.7	- 3.6
Chase Econometrics	12/26/84	10.3	- 7.8
Wharton Econometric Forecasting Associates, p. 30	12/26/84	10.5	- 5.4
The Journal of Business Forecasting, p. 31	1/85	10.5	- 5.3
Kent Economic and Development Institute	1/1/85	10.6	- 4.5
First Nat'l Bank of Chicago, p. 33	1/7/85	10.5	- 5.4
Chemical Bank, p. 37	1/15/85	10.8	- 2.7
The Equitable Life Assurance Society of the U.S., p. 38	1/15/85	10.6	- 4.5
Shearson Lehman/American Express, p. 39	1/15/85	10.7	- 3.6
Money Market Services, Inc.	1/22/85	10.5	- 5.4
AmeriTrust Company, p. 42	1/25/86	10.4	- 6.3

* Calculated as average of four quarterly data.

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt:Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	SCB, Blue pages
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36

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KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE, INC.

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KEDI ECONOMIC SURVEY

January 2, 1987

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SOURCES:

U.S.Department of Commerce third estimates of 1986:3 National Income and Product data, December 20, 1986.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, December, 1986.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

Economic growth will slow down somewhat in 1987 compared to 1986. Expect 2.5% growth compared to 2.9% in 1986.

Prices

Inflation will remain under control through 1987 with plentiful labor, commodities and capacity to keep the lid on.

Employment & Labor

Employment forecast shows steady gains in line with increases in total labor force.

Housing

November housing starts lowest since October 1984, and down 3.4% from November 1985.

Automobiles

Import sales will continue to gain bigger share of market in 1987 as consumer buying mood turns to foreign cars.

Budgets

Forecast data show that the overall impact of tax reform on businesses will be mixed.

Income

Personal income and personal disposable income both show fairly healthy growth in line with nominal GNP.

Money & Credit

The experience of the past two years has shown that inflation has been reduced while the money supply has grown faster than ever.

Interest Rates, Yields & Securities Prices

Expect some further declines in interest rates in the first half of the year and stabilization in the second half.

0.02 ASSUMPTIONS

		Last Update
1.	In 1987, the weighted price of oil will increase as compared to 1986. It will continue increasing in the 1988-1990 period.	April 1986
2.	A longer-lasting relaxation in monetary and credit policies that started in the second quarter of 1986, will continue into 1987. Some tightening is not expected earlier than in 1988.	October 1986
3.	In 1987 and 1988 good crops in all main producing countries are anticipated.	September 1986
4.	Foreign trade with China will expand in 1987 and following years.	May 1986
5.	Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.4%; Italy 2.4%; Great Britain 2.6%; France 2.8%; Japan 3.3%; Canada 3.0%.	August 1986
6.	No drastic changes in international relationships are anticipated.	Permanent Assumption

0.03 FORECAST HIGHLIGHTS

* Table 0.00 on page 3 shows forecast data of selected indicators of the January 1987 KEDI forecast.

* In 1987 moderate growth is expected. It will accelerate in 1988.

* The upward trend will continue throughout 1989-1990.

* Forecast data for 1987-1990 do not point to recession or major downturn.

* In 1987 interest rates will further decline and will remain at low levels throughout the year. Some slight increases are anticipated in 1988.

* Federal budget deficits will keep declining in 1987 and the following fiscal years.

* The 1986 export-import gap will start closing to a more acceptable level.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1986, 1987 and 1988 are on pages indicated below.

Indicator	Unit	1985	1989	1990	1991
Gross national	bil. 82$	3575.2	4014.2	4106.5	4205.1
product, p. 5	% change	2.9	3.0	2.3	2.4
Index of indust.	1977=100	125.0	138.6	143.0	147.9
prod., p. 5	% change	1.0	3.4	3.2	3.4
Capacity	%	79.7	81.0	80.2	79.4
utiliz., p. 5	% change	-.9	.1	-1.0	-.9
Unemployment	%	7.0	6.7	6.5	6.6
rate, p. 5	% change	-2.5	-1.3	1.0	.8
Private housing	mil.units	1.8	1.9	1.8	1.9
starts, p. 5	% change	3.5	4.5	-2.5	3.4
Car sales,	mil.units	11.4	11.3	11.2	11.6
p. 5	% change	2.5	3.0	-.8	4.0
Implicit GNP	1982=100	112.3	126.8	131.4	136.8
price def., p. 9	% change	2.0	3.3	3.6	4.1
Consumer Price	1967=100	328.4	357.6	370.1	383.8
Index, p. 9	% change	2.0	3.1	3.5	3.7
Prod.Price Index	1967=100	289.9	328.4	343.2	354.5
(fin.goods),p.9	% change	-1.4	4.1	4.5	3.3
Federal Deficit	bil. $	-200.1	-137.5	-117.5	-96.3
p. 19	% change	15.1	-12.3	-14.5	-18.1
Personal Income	bil. $	3314.5	4275.2	4574.5	4908.4
p. 21	% change	5.1	6.9	7.0	7.3
Prime Rate	%	8.3	8.0	8.8	9.5
p. 25	% change	-11.6	6.9	9.0	8.4
Mortgage Rate	%	9.9	9.1	8.8	9.0
p. 25	% change	-11.2	3.6	-2.7	2.0
Currency+demand	bil. $	669.7	847.5	904.3	956.8
deposits, p. 23	% change	12.8	6.6	6.7	5.8
Commercial+ind.	bil. $	519.0	583.4	600.3	612.9
loans, p. 23	% change	5.3	3.2	2.9	2.1
Raw steel	mil.sh.tons	88.1	89.3	90.0	90.2
production	% change	-4.8	-.1	.8	.2
Electric power	mil.kw-hr	2576	3210	3351.2	3522.2
production	% change	6.5	4.1	4.4	5.1
Bituminous coal	mil.sh.tons	873	930	973.1	984.0
production	% change	-.1	1.4	1.3	1.5
Crude oil	avg. daily bbl.	3279	2316	2360.0	2395.4
output	% change	.9	1.8	1.9	1.5
Retail sales	bil. $	1377.7	1757.4	1857.6	1976.5
p. 7	% change	6.2	5.9	5.7	6.4

Numbers in "% change" rows show percent changes over the previous year.

1.10 REAL GROWTH

See Table 1.11
Page 5

1987
FORECAST
DATA

Percent Change
from
December 1986
Forecast

+ 1.24%	Unemployment
+ .24%	Autos
- .04%	GNP
- .06%	Capacity Util.
- .23%	Index Indus. Prod.
- .38%	Private Housing Starts

ECONOMIC GROWTH WILL SLOW DOWN SOMEWHAT IN 1987 COMPARED TO 1986.

It will drop from expected rate 2.9-3.0% in 1986 to approximately 2.5% in 1987 for these reasons:

* Strong consumer demand will persist, though not as strong as in 1986.
* Strong housing, but not as strong as in 1986.
* Good level of car sales though not as good as in 1986.

This adds up to MODERATE growth in 1987 with no declines or recession.

The expected growth will be MORE BALANCED than in 1986:

* Lower Federal deficit and lower foreign trade gap.
* Improved performance of manufacturing, low inflation, low interest rates, further gains in employment and strong stock and bond markets are predicted.

KEDIs moderately optimistic outlook is supported by the fact that there are no prerecession signals in the economy.

* There is and will be enough idle capacity, unemployed workers, and supplies of commodities to keep the economy from overheating.
* Fiscal policy is and will not be restrictive.
* Consumer demand and buying power will grow, saving will be adequate and the growth of consumer debt not too high.

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	GNP	Index of ind. prod**	Unem-ploy ment	Capacity util'n rate**	Private housing starts	Auto sales
Unit	$82 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1985*	3575.2	123.8	7.21	80.4	1.742	11.1
1986:1*	3655.9	125.0	7.06	80.0	1.990	10.7
2*	3683.3	124.4	7.16	79.6	1.905	10.7
3*	3686.4	125.1	6.90	79.7	1.744	13.2
4	3695.7	125.7	7.01	79.4	1.574	10.9
YEAR	3680.3	125.0	7.03	79.7	1.803	11.4
% change from '85	2.9	1.0	-2.5	-.9	3.5	2.5
1987:1	3724.2	126.4	7.02	79.7	1.545	10.3
2	3756.0	127.4	6.98	79.8	1.704	10.7
3	3788.2	128.7	6.92	79.4	1.813	11.0
4	3826.0	131.5	6.94	80.1	1.712	10.5
YEAR	3773.6	128.5	6.96	79.8	1.694	10.6
% change from '86	2.5	2.8	-1.0	.1	-6.1	-6.6
1988:1	3833.1	132.3	6.96	80.2	1.664	10.3
2	3857.4	133.4	6.87	80.4	1.810	10.8
3	3886.2	134.1	6.73	81.2	1.924	11.4
4	4012.4	136.3	6.62	81.8	1.853	11.2
YEAR	3897.3	134.0	6.79	80.9	1.813	10.9
% change from '87	3.3	4.3	-2.4	1.4	7.0	2.8

*Historical data.
**New, revised series

1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1987
FORECAST
DATA

Percent Change
from
December 1986
Forecast

+ 3.42%	Retail Sales Nondurable
+ 2.12%	Retail Sales Total
+ .20%	Pers. Con. Exp. Nondurable
+ .09%	Pers. Con. Exp. Services
00.00%	Retail Sales Durable
- .35%	Pers. Con. Exp. Durable

CONSUMER SPENDING WILL REMAIN STRONG BUT NOT EXCESSIVELY.

Tax cuts will put more money into consumers pockets, and consumer purchasing power will be augmented by consumer loans, but not as much as in 1986.

A major increase in 1987 consumer spending is expected on services: health care, transportation, repairs, entertainment, education and travel are the most significant increments in spending in this category.

Consumer durables spending will also increase--expect strong consumer demand for household durables, furniture and fixtures, appliances, and household equipment and accessories.

Regular increases are forecast for purchases of textiles, apparel and leather and plastic products.

Forecast data for retail trade point to good performance of food stores, department stores, house-building materials, specialty stores, and gasoline stations.

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*--Personal Cons. Expend.- Durables	Nondur-ables	Services	**------Retail Sales------* Total	Durables	Nondur-ables
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.						
1985*	359.2	905.1	1336.1	1377.7	511.6	866.2
1986:1*	360.8	929.7	1415.5	1410.8	526.4	884.4
2*	373.9	928.4	1428.1	1445.6	532.1	913.5
3*	414.5	932.8	1452.4	1470.2	559.4	910.8
4	398.3	948.1	1469.9	1485.6	555.3	930.3
YEAR	386.9	934.8	1441.5	1453.0	543.3	909.8
% change from '85	7.7	3.3	7.9	5.5	6.2	5.0
1987:1	392.0	958.1	1518.5	1499.7	560.4	939.3
2	402.1	967.9	1539.2	1539.6	570.5	969.1
3	409.3	981.4	1558.4	1580.7	590.7	990.0
4	412.2	994.2	1594.8	1608.1	598.9	1009.2
YEAR	403.9	975.4	1552.7	1557.0	580.1	976.9
% change from '86	4.4	4.3	7.7	7.2	6.8	7.4
1988:1	414.5	1014.2	1609.4	1647.8	614.4	1033.4
2	418.1	1022.3	1633.3	1634.5	620.5	1014.0
3	444.0	1040.1	1633.7	1664.2	629.9	1034.3
4	460.1	1055.4	1784.9	1691.6	636.2	1055.4
YEAR	434.2	1033.0	1665.3	1659.5	625.2	1034.3
% change from '87	7.5	5.9	7.3	6.6	7.8	5.9

1.13 REAL GNP

See Table 1.13
Page 9

1987
FORECAST
DATA

Percent Change
from
December 1986
Forecast

+	.32%	Net Exports
+	.08%	Pers. Cons. Expend.
-	.04%	GNP
-	.07%	Gross Private Dom. Inv.
-	.27%	State Local Purch.
-	.46%	Fed. Govt. Purch.

KEDI forecast calls for 2.5% rise in real GNP in 1987 over 1986 with acceleration to 3.1% in 1988 over 1987. Compared to other forecasters, KEDIs is moderately optimistic:

FORECAST: % GROWTH IN 1987 OVER 1986

Administration	3.2
Wharton Econometrics	3.3
National Association of Manufacturers	1.3
Blue Chip Indicators	2.5

PERCENT OF GROWTH AS MEASURED FROM 1986:4 TILL 1987:4 (Data taken from Business Week, Investment Issue, December 1986-January 1987, page 63.

UCLA at Los Angeles	3.9
Fairmodel, Economica	3.8
RSQE, Univ. of Mich.	3.8
KEDI	3.6
Wharton Econometrics	3.5
Data Resources	3.0
Evans Economics	2.5
Chase Econometrics	2.4
Lawrence H. Meyer and Assoc.	2.3
Merrill Lynch Economics	2.3
Georgia State Univ.	2.1
Average	3.0

TABLE 1.13
REAL GNP
Quarterly data are seasonally adjusted at annual rates

INDICATOR	*----------Gross National Product----------					
	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1985*	3575.2	2324.5	647.7	-108.2	313.6	397.6
1986:1*	3655.9	2372.6	684.0	-125.9	320.4	404.8
2*	3683.3	2408.4	664.7	-153.9	328.9	413.3
3*	3686.4	2448.0	651.3	-163.3	330.9	419.5
4	3695.7	2450.0	657.3	-165.3	332.9	420.8
YEAR	3680.3	2419.8	664.3	-152.1	328.3	414.6
% change from '85	2.9	4.1	2.6	40.6	4.7	4.3
1987:1	3724.2	2463.6	660.1	-156.5	335.1	421.9
2	3756.0	2469.9	669.0	-148.9	337.6	428.4
3	3788.2	2486.1	672.1	-143.1	339.7	433.4
4	3826.0	2506.2	679.0	-139.0	341.0	438.8
YEAR	3773.6	2481.4	670.0	-146.9	338.4	430.6
% change from '86	2.5	2.5	.9	-3.4	3.1	3.9
1988:1	3833.1	2430.0	681.2	-138.1	342.1	442.0
2	3857.4	2520.9	683.8	-136.8	344.2	445.3
3	3886.2	2535.1	691.1	-133.6	345.9	447.7
4	4012.4	2653.0	692.0	-131.7	346.8	452.3
YEAR	3897.3	2548.4	687.0	-135.1	350.1	446.8
% change from '87	3.3	2.7	2.5	-8.1	3.5	3.8

*Historical data.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

1987
FORECAST
DATA

Percent Change
from
December 1986
Forecast

00.00%	GNP
- .04%	Pers. Cons. Expend.
- .06%	Consumer Price Index
- .07%	Federal Govt. Purch.
- .16%	State Local Purch.
- .26%	Producer Price Index

INFLATION WILL REMAIN
UNDER CONTROL

* In 1987 unused capacity of mines, manufacturing and utilities will remain at approximately the same levels as in 1986: 80.1% in 1987:4 compared to the expected 79.4% in 1986.

* Unemployment rate will hover around 6.9-7.0% throughout 1987.

* Supply of commodities will remain plentiful, and prices of energy will go up only moderately.

This means that the labor markets and commodity markets will not be putting pressure on prices to go up.

BUSINESS INFLATION--expect main price increases in raw materials other than food and energy, and prices of imported machinery and equipment.

CONSUMER INFLATION--Main increases are forecast for prices of services, mainly health, transportation, entertainment, repairs and maintenance and insurance. Prices of food, beverages, clothing and apparel will rise only moderately, below the expected 2% average price increase of goods and services recorded by the Consumer Price Index.

TABLE 1.21
PRICES
Quarterly data are seasonally adjusted at annual rates unless otherwise stated.

INDICATOR	*---Indexes--* Cons. price index n.s.a.**	Prod. price index n.s.a.**	*-------Price deflators--------* Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1967= 100	1967= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1985*	322.1	293.9	112.3	112.7	111.0	116.3
1986:1*	327.3	292.3	113.7	103.1	111.0	118.7
2*	326.5	288.3	114.0	103.5	111.8	119.3
3*	328.9	287.9	115.0	114.4	111.6	120.3
4	330.9	290.9	115.7	115.0	112.1	121.3
YEAR	328.4	289.9	114.6	114.4	111.6	119.9
% change from '85	2.0	-1.4	2.0	1.5	.6	3.1
1987:1	333.0	293.9	116.7	116.4	113.1	122.1
2	335.6	298.8	117.8	117.8	114.4	124.1
3	337.6	304.5	118.7	118.6	115.8	125.6
4	340.2	308.0	119.6	119.8	117.2	127.4
YEAR	336.6	301.3	118.2	118.1	115.1	124.8
% change from '86	2.5	4.0	3.1	3.2	3.1	4.1
1988:1	343.3	310.6	121.1	125.0	118.2	128.8
2	347.2	313.5	122.2	121.9	119.4	130.0
3	347.3	317.6	123.1	123.0	120.6	132.2
4	349.7	320.1	124.6	124.4	122.3	134.0
YEAR	346.9	315.5	122.8	123.6	120.1	131.2
% change from '87	3.1	4.7	3.8	4.6	4.3	5.2

*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

1987
FORECAST
DATA

Percent Change
from
December 1986
Forecast

+	.06%	Per. Cons. Expend.
-	.08%	GNP
-	.26%	Gross Private Dom. Inv.
-	.38%	State Local Purch.
-	.46%	Net Exports
-	.55%	Federal Govt. Purch.

EXPORT-IMPORT GAP TO NARROW IN 1987, plus:

* Increase in business capital spending
* Lower share of Federal spending on total GNP

KEDI is LESS optimistic than the Administration and many forecasters who expect a more rapid decline in the export-import gap because it is anticipated that the dollar rate of exchange will not drop much more against other major currencies. KEDI agrees with economists who calculate that since February 1985, the dollar depreciated an average of 4-6%, and not at 20-30% as officially calculated. U.S. exports have not increased and will not increase significantly in 1987 as expected by many.

Do not expect U.S. products to REDOMINATE foreign markets, especially Western Europe because they are producing quality products and are highly selection on imports. Developing countries are restricting their imports.

Business Capital Outlays show a modest growth compared to the depressed level of 1986.
KEDI outlook on FEDERAL SPENDING is optimistic and anticipates a majority of budget cuts will be realized and the proportion of Federal outlays to total GNP will take a slight decline.

TABLE 1.22
NOMINAL GNP
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*----------Gross National Product----------					*
	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1985*	3998.1	2619.1	661.1	-78.9	354.1	461.3
1986:1*	4156.8	2706.0	708.3	-93.7	355.6	480.5
2*	4174.0	2730.3	687.3	-104.5	367.7	493.1
3*	4240.7	2799.8	675.8	-108.9	369.3	504.7
4	4275.9	2816.3	683.1	-107.1	373.2	510.4
YEAR	4217.7	2766.2	688.6	-103.5	366.4	497.2
% change from '85	5.5	5.6	4.2	31.2	3.5	7.8
1987:1	4346.1	2868.6	689.1	-105.7	379.0	515.1
2	4424.6	2909.2	702.2	-104.7	386.2	531.6
3	4496.6	2949.1	710.8	-101.0	393.4	544.4
4	4575.9	3001.2	713.1	-97.1	399.7	559.0
YEAR	4460.8	2932.0	703.8	-102.1	389.6	537.5
% change from '86	5.8	6.0	2.2	-1.4	6.3	8.1
1988:1	4641.9	3038.1	720.2	-90.1	404.4	569.3
2	4713.7	3073.7	729.7	-79.5	411.0	578.9
3	4783.9	3117.8	733.1	-76.0	417.2	591.9
4	4999.5	3300.4	736.0	-67.2	424.1	606.1
YEAR	4783.9	3149.4	729.8	-78.2	414.2	586.5
% change from '87	7.2	7.4	3.7	-23.4	6.3	9.1

*Historical data.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1987 FORECAST DATA

Percent Change from December 1986 Forecast

+ .65%	Unemployment rate
+ .04%	Civilian Labor Force
00.00%	Agriculture
- .01%	Population
- .06%	Total Employed
- .06%	Non-Agri.

EMPLOYMENT FORECAST SHOWS STEADY GAINS IN LINE WITH INCREASES IN TOTAL LABOR FORCE.
That translates into a stable unemployment rate, hovering around 7%. Do not look for the unemployment rate to drop before late 1988.

In 1987, approximately 90% of new jobs are expected in service industries, trade, communications, and transportation.

MANUFACTURING will see slight increase of approximately 60,000 newly employed mainly in nondurables industries, mainly food, chemicals, paper and paper products, and plastics.

Look for further declines in fabricated metals and metal working machinery, with mining leveling off. There will be SLIGHT increases in coal mining and stone quarrying, STABLE in oil and gas extraction, with further DECLINES in metallic ores. Construction will show some DECLINES in apartment construction and commercial building, and FLAT in roads construction and repairs, and small increases in public projects.

TABLE 1.30
EMPLOYMENT & LABOR
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Population	Civil. labor force	*-------Employment-------* Total	Agricult.	Non-agric.	Unemployment rate
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1985*	241.7	115.4	107.2	3.2	103.9	7.21
1986:1*	244.5	117.0	108.7	3.2	105.5	7.06
2*	245.9	117.7	109.3	3.2	106.1	7.16
3*	247.3	118.2	110.2	3.2	104.1	6.90
4	249.8	118.7	110.4	3.1	107.3	7.01
YEAR	246.9	117.9	109.7	3.2	106.5	7.03
% change from '85	2.1	2.2	2.0	-.8	2.5	-2.46
1987:1	250.7	119.1	110.7	3.1	107.6	7.02
2	252.3	120.2	111.8	3.1	108.7	6.98
3	254.0	121.8	113.4	3.1	110.3	6.92
4	256.1	122.3	113.8	3.1	110.7	6.94
YEAR	253.3	120.8	112.4	3.1	109.3	6.96
% change from '86	2.6	2.5	2.5	-2.4	2.7	-.96
1988:1	257.5	123.0	114.4	3.1	111.3	6.96
2	259.6	123.9	115.4	3.0	112.4	6.87
3	261.4	125.2	116.8	3.0	113.8	6.73
4	263.5	126.5	118.1	3.0	115.1	6.62
YEAR	260.5	124.7	116.2	3.1	113.1	6.79
% change from '87	2.9	3.1	3.2	0.0	3.4	-2.44

*Historical data.

1.41 HOUSING

See Table 1.41 - Page 17

1987 FORECAST DATA

Percent Change from December 1986 Forecast

+ .53%	Single Family Starts
+ .08%	Permits Issued
- .25%	1-Family unit price Existing
- .33%	1-Family unit price New
- .38%	Mobile Home Shipments
- 4.69%	Multiple Family Housing Starts

NOVEMBER HOUSING STARTS LOWEST SINCE OCTOBER 1984, AND DOWN 3.4% FROM NOVEMBER 1985.

HOUSING STARTS (in mil. units)

	Total	1-Fam.	Multi
Oct '86	1628	1090	538
Nov '86	1598	1093	505

The 1987 forecast shows that single family housing starts will remain at low levels throughout the year and that multi-family housing will continue declining. Overbuilding, high vacancy, and impact of new tax law will hurt the multi-family housing in 1987. Expect MAJOR DECLINES in housing starts in the Southwest, Mideast, and California with MORE NORMAL levels in New England, the Midwest, and Northern states.

Forecast data indicate an UPTURN in housing in 1988 and beyond.

TABLE 1.41
HOUSING
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR Unit	Single family housing starts mil.	Multi-family housing starts mil.	Mobile home shipments mil.	Permits authorized mil.	1-Fam. unit price new** tho. $	1-Fam. unit price exist** tho. $
Year & Qtr.						
1985*	1.072	.669	.283	1.735	101.0	90.3
1986:1*	1.257	.733	.274	1.839	103.4	91.8
2*	1.242	.663	.280	1.805	104.7	94.7
3*	1.142	.602	.278	1.678	106.2	96.7
4	1.065	.509	.264	1.567	109.9	97.5
YEAR	1.176	.627	.274	1.722	106.1	95.2
% change from '85	9.7	-6.3	-3.2	-.7	5.0	5.4
1987:1	1.024	.521	.252	1.514	110.4	99.2
2	1.108	.596	.280	1.667	111.2	100.1
3	1.165	.648	.268	1.704	112.0	100.8
4	1.098	.614	.248	1.728	114.1	103.7
YEAR	1.099	.595	.262	1.653	111.9	101.0
% change from '86	-6.6	-5.1	-4.4	-4.0	5.5	6.1
1988:1	1.029	.635	.259	1.619	115.4	105.1
2	1.124	.686	.274	1.730	117.7	106.3
3	1.252	.672	.297	1.845	119.9	107.7
4	1.188	.665	.292	1.817	122.2	108.9
YEAR	1.148	.665	.280	1.753	118.8	107.0
% change from '87	4.5	11.7	7.1	6.0	6.1	6.0

*Historical data.
**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

1987
FORECAST
DATA

Percent Change
from
December 1986
Forecast

+ 1.61%	Imported Car Sales
+ 1.33%	Shipments
+ 1.01%	Domestic Car Sales
+ .74%	Total Light Truck Sales
+ .24%	Total Car Sales
00.00%	Dealer Inventory

IMPORT SALES WILL CONTINUE TO GAIN BIGGER SHARE OF MARKET IN 1987.

Total production of U.S. built cars will be lower in 1987 than in 1986 as pent-up demands have been exhausted through the exhaustive low interest incentive campaigns.

* Prices of cars in 1987 will not be attractive despite anticipated rounds of rebates and other incentives.
* Expect significant increases in repair costs.
* Consumer buying mood expected to turn to more foreign cars.

This points to a CONSUMER PAUSE in 1987, with resuscitation in 1988 and 1989.

LIGHT TRUCK sales will remain stable throughout 1987, but not as strong as 1986.

HEAVY TRUCKS are leveling off, but expect stronger sales in second half of the year.

TABLE 1.42
AUTOMOBILES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1985*	11.1	8.4	2.8	1.3	8.4	3.7
1986:1*	10.7	7.9	2.8	1.8	7.7	3.4
2*	10.7	7.7	3.0	1.7	7.9	3.5
3*	13.2	9.7	3.5	1.1	9.8	3.6
4	10.9	7.3	3.0	1.4	7.8	3.3
YEAR	11.4	8.2	3.1	1.4	8.3	3.5
% change from '85	2.5	-3.0	9.8	7.7	-1.2	-6.8
1987:1	10.3	7.4	2.9	1.8	7.5	3.3
2	10.7	7.6	3.1	1.8	7.4	3.5
3	11.0	7.7	3.3	1.7	7.8	3.5
4	10.5	7.2	3.3	1.8	7.7	3.4
YEAR	10.6	7.5	3.1	1.8	7.6	3.4
% change from '86	-6.6	-9.0	2.4	28.6	-8.4	-.7
1988:1	10.3	7.0	3.3	1.9	7.6	3.3
2	10.8	7.7	3.1	1.8	7.9	3.5
3	11.4	8.0	3.4	1.7	8.1	3.7
4	11.2	7.9	3.3	1.7	8.0	3.8
YEAR	10.9	7.7	3.3	1.7	7.9	3.6
% change from '87	2.8	-1.1	4.0	-5.6	3.9	4.4

*Historical data.
**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

1987
FORECAST
DATA

Percent Change
from
December 1986
Forecast

+10.66%	State Local Corp. Tax Accrued
- .09%	State Income Tax
- .22%	Federal Income Tax
- .32%	State Surplus/ Deficit
- .86%	Corp. Profit Tax Accrued
- 4.89%	Federal Surplus/ Deficit

FORECAST DATA SHOW THAT THE OVERALL IMPACT OF TAX REFORM ON BUSINESSES WILL BE MIXED.

In 1987, lower corporate profits tax rates will be offset by the effects of the loss of investment tax credit, tighter depreciation rules, slower write-offs of certain costs, and stiffer alternative minimum corporate tax. As a result, there will be GOOD and BAD news to different industries:

* GOOD NEWS for most consumer-oriented industries such as food, beverages, retail trade, media, printing and publishing, textile and apparel, household furnishings, plastics, services, and communications.

* BAD NEWS for primary metals, machinery, rubber, automobiles, chemicals, lumber, and oil services.

* NO IMPACT on transportation, wholesale trade, paper and products and construction.

KEDI is less optimistic than the Administration with regard to the current FY 1987 deficit. Compared to the Administration's $143.9 bil. deficit, KEDI expects $165 bil.

KEDI forecast of Federal Budget for FY 1988-1990 anticipates that the Gramm-Rudman deficit targets WILL BE MET.

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*-----FEDERAL----------* Income taxes	Corp. profits tax accru.	Surplus /deficit	*---STATE AND LOCAL----* Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1985*	350.8	67.7	-200.1	142.0	18.1	59.2
1986:1*	350.3	71.2	-201.6	147.2	17.5	70.0
2*	353.1	75.2	-238.1	151.7	18.1	59.0
3*	365.8	84.3	-197.4	153.1	20.1	64.0
4	380.2	86.5	-190.3	155.1	21.5	65.8
YEAR	362.4	79.3	-206.8	151.8	19.3	64.7
% change from '85	3.3	17.1	3.4	6.9	6.6	9.3
1987:1	389.1	87.1	-181.2	158.0	22.4	67.8
2	397.4	91.2	-177.9	161.8	23.1	69.1
3	402.9	93.8	-173.2	165.8	23.8	70.2
4	407.4	95.1	-170.0	167.4	24.1	73.6
YEAR	399.2	91.8	-175.6	163.2	23.4	70.2
% change from '86	10.2	15.8	-15.1	7.6	21.0	8.5
1988:1	412.1	97.4	-166.1	168.6	24.9	75.0
2	419.3	100.2	-160.2	170.1	25.6	77.1
3	423.8	105.4	-153.4	172.2	26.2	78.2
4	428.9	106.3	-147.3	174.7	26.7	79.4
YEAR	421.0	102.3	-156.8	171.4	25.9	77.4
% change from '87	5.5	11.5	-10.7	5.0	10.7	10.3

*Historical data.

1.60 INCOME

See Table 1.60 - page 23

1987 FORECAST DATA

Percent Change from December 1986 Forecast

+ .02%	Comp. of Employees
- .04%	Average Weekly Earnings
- .15%	Personal Disp. Income
- .16%	Personal Income
- 4.40%	Corp. After Tax Profit
- .04%	Personal Savings

PERSONAL INCOME and PERSONAL DISPOSABLE INCOME BOTH SHOW FAIRLY HEALTHY GROWTH IN LINE WITH NOMINAL GNP. Regular quarterly increments are predicted throughout the year.

	Personal Income	Personal Disposable Income
(% growth over the previous year)		
1986*	5.0%	4.9%
1987	7.7%	7.4%
1988	6.7%	6.9%

*estimate

Corporate after tax profits in 1987 will improve compared to 1986. Expect a slight, temporary decline in the first quarter of 1987, with stable, regular increments afterwards

TABLE 1.60
INCOME
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1985*	3314.5	2828.0	2368.2	131.4	143.3	382.0
1986:1*	3444.3	2946.8	2461.5	135.2	145.6	391.2
2*	3489.3	2984.5	2486.9	138.0	153.1	393.9
3*	3498.8	2979.9	2507.4	135.9	84.1	393.7
4	3492.9	2957.6	2521.8	139.4	139.3	397.0
YEAR	3481.3	2967.2	2494.4	137.1	130.5	393.9
% change from '85	5.0	4.9	5.3	4.4	-8.9	3.1
1987:1	3661.0	3113.9	2569.8	142.7	143.7	400.2
2	3721.3	3162.1	2604.6	148.6	150.6	406.3
3	3780.1	3211.4	2659.9	155.9	151.2	410.5
4	3831.8	3257.0	2711.1	161.2	153.0	415.9
YEAR	3748.5	3186.1	2636.3	152.1	149.6	408.2
% change from '86	7.7	7.4	5.7	10.9	14.6	3.6
1988:1	3896.5	3315.8	2769.6	163.2	157.1	417.4
2	3934.3	3344.9	2807.9	166.7	162.7	420.5
3	3982.3	3386.3	2870.1	170.3	163.4	425.8
4	4184.0	3580.4	2921.2	174.5	170.1	428.4
YEAR	3999.3	3406.8	2842.2	168.7	163.3	423.0
% change from '87	6.7	6.9	7.8	10.9	9.2	3.6

*Historical data.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1987
FORECAST
DATA

Percent Change
from
December 1986
Forecast

+ .25%	Consumer Install. Credit
- .16%	Comm. & Indust. Loans at Banks
- .75%	Time Deposits
- .47%	Large Denom. Time Deposits
- .75%	Currency & Demand Deposits
- 1.13%	Mortg. at S & L Assns.

THE EXPERIENCE OF THE PAST TWO YEARS HAS SHOWN THAT INFLATION HAS BEEN REDUCED WHILE THE MONEY SUPPLY HAS GROWN FASTER THAN EVER.

KEDI anticipates that this will also hold for 1987 and the strong growth of monetary aggregates will continue. Rather than rekindling inflation, it will contribute to upward prices for stocks and bonds.

KEDI believes that the FED monetary policy will be NOT RESTRICTIVE so long as inflation behaves. Restrictive measures might result in undesired effects on manufacturing, foreign trade, and international value of the dollar.

Expect some slowing down in the growth of major credit aggregates. Consumer credit will expand less rapidly compared to a torrid pace in 1986--mainly less automobile loans.

Mortgage credit will slow down with less housing activity and commercial loans will increase only marginally.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDICATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2, s.a.	Cons. instal. credit n.s.a.	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at S & L Assns. n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1985*	593.6	2484.0	535.1	493.9	436.5	585.5
1986:1*	629.8	2581.3	550.9	502.1	450.4	577.1
2*	657.8	2645.7	567.7	508.0	449.7	567.4
3	685.0	2714.8	588.9	511.8	447.0	578.0
4	706.1	2763.3	598.4	519.0	445.1	590.6
YEAR	669.7	2676.3	598.4	519.0	445.1	590.6
% change from '85	12.8	7.7	11.8	5.3	2.0	.9
1987:1	719.4	2846.2	604.2	526.8	443.4	597.2
2	733.2	2902.3	611.3	534.0	444.2	603.1
3	742.7	2970.1	624.7	537.2	447.8	610.7
4	756.5	3025.1	634.8	547.2	448.2	613.7
YEAR	738.0	2935.9	634.8	547.2	448.2	613.7
% change from '86	10.2	9.7	6.1	5.4	.7	3.9
1988:1	772.5	3094.6	641.6	550.6	451.2	628.6
2	789.4	3152.4	650.4	554.9	454.0	635.7
3	799.6	3232.2	664.3	559.2	457.9	640.2
4	818.8	3297.1	678.2	565.3	461.2	650.6
YEAR	795.1	3194.1	678.2	565.3	461.2	650.6
% change from '87	7.7	8.8	6.8	3.3	2.9	6.0

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1987
FORECAST
DATA

Percent Change
from
December 1986
Forecast

+ 3.04%	20 yr. Govt. Bonds Yield
+ .53%	Treas. Bills 3 mo. Yield
+ .50%	S & P's 500 Avg.
+ .41%	Prime Rate
+ .36%	Conv. Mortg. Rate
+ .22%	Aaa Corp. Bond Rate

EXPECT SOME FURTHER DECLINES IN INTEREST RATES IN THE FIRST HALF OF THE YEAR AND STABILIZATION IN THE SECOND HALF.

It is anticipated that the FED will continue its policy of easy credit throughout the year.

* The recovery of manufacturing is still fragile and not strong enough to justify more expensive credit.

* There is still enough room for further declines in interest rates, especially mortgage credit. Housing starts will be weak and present level of mortgage rates (or even higher) would have a negative impact on housing activity. Another candidate for decrease is credit card interest rates. It is expected that declines in this area will continue through this year.

* Expect gradual declines in consumer installment credit, especially auto loans on new and used cars as well as household furnishings.

* Business capital outlays are expected to increase only marginally in 1987 over 1986. Higher interest rates might discourage business even more and depress business capital expenditures.

Look for a BULLISH stock market throughout the year!

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield	Prime rate	Conv. mortg rate	Aaa corp. bond rate	20 yr. Govt. bonds yield	S & P's 1941-43 500 Avg
Unit	%	%	%	%	%	%
Year & Qtr.						
1985*	7.48	9.43	11.12	11.32	10.88	186.84
1986:1*	7.01	9.37	10.22	9.74	9.01	221.72
2*	6.14	8.61	9.82	9.00	7.67	242.16
3*	5.52	7.85	9.84	8.81	7.38	241.15
4	5.31	7.50	9.62	8.68	6.98	250.31
YEAR	5.99	8.33	9.88	9.06	7.76	238.84
% change from '85	-19.9	-11.6	-11.2	-20.0	-28.7	27.8
1987:1	5.25	7.42	9.53	8.36	6.75	252.47
2	5.18	7.26	9.01	8.19	6.41	252.04
3	5.08	7.21	8.76	8.11	6.16	254.16
4	5.24	7.31	8.59	7.89	6.07	256.78
YEAR	5.19	7.30	8.97	8.14	6.35	253.86
% change from '86	-13.5	-12.4	-9.1	-10.2	-18.2	6.3
1988:1	5.27	7.36	8.67	7.81	5.97	254.91
2	5.39	7.45	8.72	7.96	5.78	257.14
3	5.43	7.58	8.81	8.12	5.96	261.52
4	5.61	7.72	8.89	8.26	6.04	264.38
YEAR	5.42	7.53	8.77	8.04	5.94	259.49
% change from '87	4.6	3.1	-2.2	-1.2	-6.5	2.2

*Historical data.

2.00 U. S. INDUSTRIES IN 1987-1988

Agriculture: Corn, wheat, soybeans, and rice crops will maintain their current levels. **Construction:** Expect a temporary decline in single-family housing followed by some improvement in 1988. Apartment housing will decline significantly in both forecast years compared to 1986. Fairly good growth rates in repair and construction of roads, bridges, and airports with moderate growth in public projects and declines in office space and plant construction. **Mining:** Depressed levels in metalic ores mining, and stabilizing of oil and gas extraction at low levels for both forecast years. Compared to 1986, coal production will level off in 1987 and resume the upward trend in 1988. **Durables manufacturing:** Slight improvements will take place in most industries. Expect significant growth in aerospace, electrical machinery and instruments. Primary metals will remain essentially flat with some gains at the end of 1988. The automobile cycle is winding down--look for the next expansion phase in 1988. The market for light-duty trucks will remain strong, with a temporary, slight decline in 1987. The market share for imported cars will increase in 1987. No significant changes in the output of lumber and wood industries are predicted for 1987--expect some improvements in late 1988 with the start of the new housing cycle and with some relief from foreign competition. **Nondurables manufacturing:** Growth in output is expected in the following industries: food and kindred products, paper and products, printing and publishing, plastics, and coal and petroleum products. Production of chemicals and products will go up significantly, mainly in agricultural chemicals, components of plastic materials, and explosives. In the rubber industry, production of tires is expected to remain flat in 1987, with a slight increase in 1988 over the previous year. Strong and continous gains in production of non-tire rubber products are predicted for both forecast years. Textile mill products and apparel growth will remain flat in 1987 and 1988. The leather industry will continue to be weak in performance. **Utilities:** Moderate increase in the production of electricity is expected in both forecast years. No significant increase in natural gas production is predicted. **Trade:** Expect continuous expansion throughout 1987-1988. In 1987 above average increases in sales of nondurables--food and beverages, and durables--home furnishings and fixtures, and other household durables are forecast. Sales of motor vehicles and parts will remain essentially flat. In 1988 significant improvements in sales of textile, apparel, building materials, and motor vehicles and parts will take place. There are no main increments in wholesale trade until 1988. **Transportation:** For railroads, tonnage hauled in 1987 will remain essentially the same as in 1986, with a slight decline in coal, and small increases in grain and intermodal transportation. In 1988, gains in grain and coal tonnage, and further improvements in intermodal transportation are predicted. In 1987, trucking tonnage hauled will increase by 2.3% over 1986, and by 3.4% in 1988 over 1987. No significant gains in passenger-miles in air transportation are predicted for the next two years. **Services:** Main increments are predicted for entertainment, hotels, motels, restaurants, medical, educational, and legal services. Banking, real estate, and insurance are expected to slow down.

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin**, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production**, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

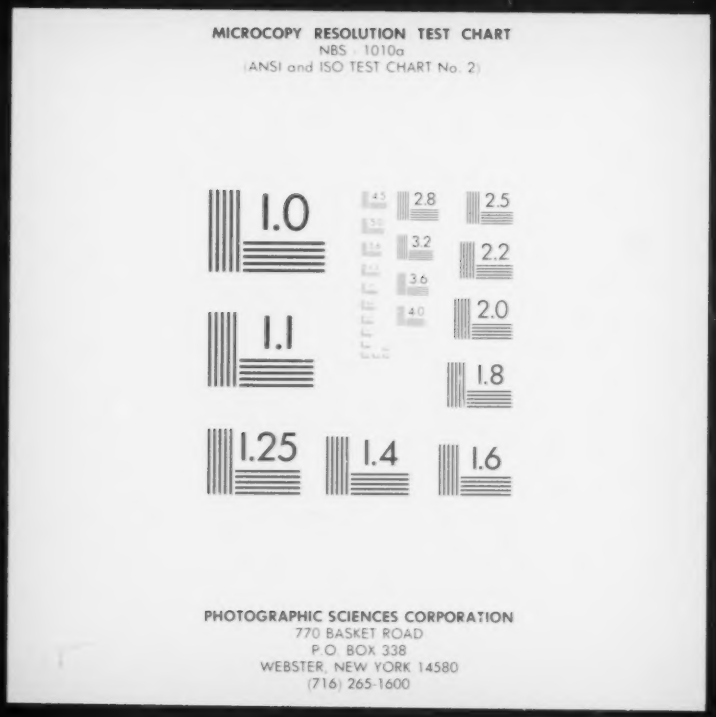
Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employ-ment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt:Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	FRB, Table 1.53
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36



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